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CENTRAL INTELLIGENCE AGENCY

31 May 1949

INTELLIGENCE MEMORANDUM NO. 174

SUBJECT: Some Loopholes in US Export Control Program

The main objective of US export control policy, namely, to prevent or restrain the movement of critical and strategic commodities to the countries of Eastern Europe, is being thwarted in various ways, among which are: (1) lack of success in the efforts to persuade some Western countries to cooperate sufficiently, (2) through uncontrolled entrepot trade, (3) by clandestine and other indirect attempts by the USSR and satellites to obtain strategic items from the US and other Western sources, and (4) by resale of US Army surplus equipment to countries in the Soviet orbit.

Because of increasing evidence of an acute supply position in the Soviet orbit with respect to a number of critical items, the present memorandum presents:

- a. A short statement regarding the importance of Sweden as a source of ball bearings for Eastern European countries.
- b. Some examples of entrepot trade which apparently is not now subject to effective government control.
- c. A series of examples of indirect or clandestine shipments of ball bearings through Switzerland to countries of Eastern Europe.
- d. Some examples of the movement of US Army surplus equipment to countries in the Soviet orbit.

With reference to the movement of ball bearings from Sweden to countries in the Soviet orbit, it should be recalled that machinery for the manufacture of ball bearings is included in the US 1-A List and that ball bearings were given a 1-B classification, that is quantitative control, (instead of 1-A - embargo) in order to make the US proposals for export control more acceptable to Sweden and Switzerland, important European producers of ball bearings, and because it was anticipated that these countries would be less inclined to adopt the more restrictive export control.

Note: This memorandum has not been coordinated with the intelligence organizations of the Departments of State, Army, Navy, and the Air Force.

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In previous Intelligence Memoranda (mentioned above) examples have been given of the transshipment of strategic and critical commodities of US origin through third countries to ultimate destination in Eastern Europe. A closely related situation is called to attention by Enclosure B, which presents examples of entrepot trade involving strategic commodities which, together with transshipment trade, represents an important loop-hole in the administration of the export control program.

The examples presented in Enclosure C of indirect shipments of ball-bearings through Switzerland to countries of Eastern Europe indicate discrepancies as between the export trade controls of the Trisons of Germany and US export control policy and some deficiency in the controls exercised by the Swiss Government and the military authorities in Austria.

The movement of US Army surplus equipment from Europe to the Soviet orbit, as illustrated by the examples given in Enclosure D, is significant in connection with US export control policy because of the large volume of such equipment sold at bargain prices, and because of the probable military application of such equipment. In the case of crawler tractors, it may be noted that they are, for the most part, powered by Diesel engines of types included in the US 1-A List. Furthermore, the large numbers of such tractors, and of other equipment of types included in the 1-B List, which were involved in the Army surplus disposal program, necessarily has a bearing on considerations, both of classification and of the quantities to be licensed for export.

ENCLOSURE A

IMPORTANCE OF SWEDISH EXPORT OF BALL BEARINGS TO EASTERN EUROPE

1. Sweden is at present the Soviet bloc's most important outside source of ball and roller bearings, in terms both of quality and quantity.

2. The present production capacity of the Swedish ball and roller bearing industry is estimated at about 90,000 to 100,000 units per day and 25 million units per year. Actual 1948 production was curtailed, primarily because of a shortage of labor, and is estimated at roughly 21 million units. Swedish production capacity compares with the estimated capacity of other countries, in millions of units, as follows: United Kingdom, 55; Germany, prewar (present unknown), 92; France, 18; Switzerland, 44; Italy, 22; and the United States, 400.

3. Such export statistics as the Swedish Government makes available are in terms of tons rather than units and show that in 1948 7,708 tons of bearings, parts and accessories, valued at 81,286,000 Kronor, were exported. This seems to have constituted about 75 percent of the total production for 1948, which is estimated at 10,730 tons.^{1/} Total estimated production for the year was distributed as follows:

^{1/}Statistics on the production and export of bearings are closely guarded by the Swedish industry and by the Government; hence it is impossible to present conclusions with complete confidence because of factors either unknown or indeterminate. In particular, the figures which are given in paragraph 3 depend upon the use of known percentages of value to determine percentages of volume. In view of the many different types of bearings and accessories, different quantity figures are not likely, in a given case, to be strictly comparable; however, the results in paragraph 3 check fairly well with the facts of paragraph 4.

Total Production	Percent of Total Production 100.0%	Quantity in Tons 10,730	Value in 1000 Kr. 1 113,370
Domestic Requirements	28.3	3,037	32,084
Exports to other Marshall countries	32.0	3,434	36,278
Total to Marshall countries	60.3	6,471	68,362
Exports to USSR	2.9	311	3,288
Exports to Finland	3.8	408	4,308
Exports to other Satellites	14.1	1,513	15,985
Total to Soviet Bloc	20.8	2,232	23,581
Exports to Spain	1.3	139	1,474
Exports to countries outside Europe	17.6	1,888	19,953

1/ 3.60 Kronor = \$1.00

No statistics are available either of production or of export of bearings by type.

4. Export quotas fixed by various trade agreements in effect during most of 1948 (with some overlapping with either 1947 or 1949 depending on the date of execution of the agreement) provided for shipment of bearings, parts and accessories at the following values:

Country	Value of Kronor
USSR	6,000,000
Czechoslovakia	5,000,000
Poland	5,300,000
Finland	2,400,000 1/
Hungary	1,000,000
Yugoslavia	1,000,000
Total	21,300,000

1/ Supplementary lists may have increased the Finnish quota to 6,000,000 Kronor.

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No quotas for bearings were fixed in the agreement with Bulgaria. Although it is known that a small amount was shipped to Rumania, trade with Rumania has practically ceased due to the controversy over Rumanian nationalization of Swedish industries. Official Swedish statistics do not disclose trade of any kind with Albania during 1948. Although the quota lists with the Soviet Zone of Germany do not include bearings, Swedish-owned subsidiaries in the Western Zone of Germany (as well as in the UK, France and other countries) are supplied with a considerable amount of raw material, primarily steel, from Sweden.

Thus, if some allowance is made for miscellaneous shipments of this sort, the actual total of exports to Iron Curtain countries was very close to the amount which had been contemplated in the trade agreements. The distribution among these countries, however, was not quite in accordance with the quotas: the USSR got less, and Finland more, than planned. It should also be noted that there is considerable evidence of transshipment of bearings from the Satellites to the USSR.

5. In trade agreements negotiated in 1949, quotas for the USSR and Czechoslovakia remain the same. Except for these two countries there was a slight increase in quotas established in trade agreements negotiated with the Soviet orbit countries within the last year.

6. Ball bearings have always constituted an important item in the normal trade between Sweden and the countries now included in the Soviet bloc. Sweden in the postwar period has used bearings as an important bargaining element in negotiating trade agreements with these countries.

The volume of trade in bearings between Sweden and the Soviet bloc countries and the slight increase in quotas established in trade agreements negotiated within the last few months do not indicate an intention on the part of Sweden to conform with US export control policy on this highly strategic commodity.

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ENCLOSURE B

ENTREPOT TRADE IN CARBON BLACK AND THIURAM DISULPHIDE

Entrepot trade appears to be an entirely legal channel through which the Soviet Bloc can obtain strategic materials. No export permits are required by most countries for re-export of goods which have been held in bond and which have not been entered through the Customs.

Two examples of this type of trade, taken from recently received reports, are summarized.

An attempt was made by Czechoslovakia to obtain a substantial quantity of carbon black from the United States through England. The English intermediary, an entrepot merchant, placed the order with a New York exporter who applied for and obtained a US export license and, in support of the application, quoted a British import license number. The New York exporter placed the order with another New York firm which in turn filed it with a manufacturer of carbon black. Because the British intermediary was not a member of the UK Carbon Black Importers Association, an investigation ensued which disclosed that the British import license number was fictitious and that the shipment was destined for Czechoslovakia. Consequently, the US export license was suspended.

What is believed to be an entrepot shipment involved over 40,000 pounds of thiuram disulphide (a rubber chemical), exported this year from

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the United States to Switzerland, via Antwerp. Following this shipment, the same Swiss firm (Hacoba of Basle) inquired for an additional 500 metric tons of the same product. This quantity is more than five times greater than the total US consumption in a year. The US manufacturer to whom the inquiry was referred took no action on the request.

A prominent member of the British carbon black trade has recently stated that entrepot trade is not only not illegal but in fact is actually encouraged by the British Government. It is interesting to note this businessman's reaction to what he understands to be the present status of United States policy. He has made the further interesting comment that if the United States were to indicate clearly that the export of carbon black to Eastern European countries should not be permitted the British Government would support this policy, but that in the absence of such an explicit policy that Government finds it difficult to cooperate effectively.

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ENCLOSURE C

SHIPMENTS OF BALL BEARINGS THROUGH SWITZERLAND

Several reports from CIA sources indicate that extensive indirect shipments of ball bearings have been effected through Switzerland to Eastern European countries. These bearings are usually of German origin and are purchased in the Western Zone of Germany with German marks by Swiss agents and imported by irregular methods into Switzerland. Subsequently Swiss freight forwarders arrange their transshipment to Eastern Europe under credits opened by intermediaries with the Schweizerische Kredit-Anstalt, Lucerne. The following are a few representative transactions or attempts to procure ball bearings from or through Switzerland.

1. On 18 December 1948, 5,000 ball bearings valued at 39,000 Swiss francs were delivered to Rumania from Switzerland. On 17 January 1949 a shipment of 160 ball bearings valued at 2,370 Swiss francs arrived in Rumania from the Swiss frontier.

2. During the period 24 January to 11 February 1949, thirteen shipments of ball bearings from Switzerland to Hungary and Rumania were reported. Seven of these shipments involving 5,860 bearings in 26 cases for ultimate shipment to Budapest, were purchased directly by NIK (Hungarian Heavy Industry Ministry), Budapest, and Alfred Kertli, Baden, from Intra-Handel, A. G. Zurich, and Helwig-Urban, Lugano. Shippers were Goth S.A. and Dassas & Co., both of Zurich. Twenty-three cases containing 718 bearings were purchased by Kalchli, Zurich, from Helwig-Urban, Lugano, and

and Baumgartner, Zurich, for ultimate consignment to CIMP, Bucharest.
Hans Im Oberster, Zurich, was the shipper.

3. It is reported that Omnipol of Prague in February 1949 placed an urgent request with Swiss suppliers for 62,000 very light ball bearings of the 16,000 series. These are special purpose precision aircraft bearings for use in aircraft and aircraft instruments. Whether or not this order has been filled has not yet been reported. Since the quantity is believed to be far in excess of present Czech aircraft production requirements, it is possible that the request is of Soviet origin.

4. Reports indicate that a considerable demand exists in Switzerland for ball and roller bearings for delivery to Yugoslavia and the USSR. Orders have been reported for single row ball bearings, deep-groove (non-filling-slot type) of extra narrow light series, light series, and medium series; for double row self-aligning roller bearings, medium series; and for tapered roller bearings of medium narrow series and medium wide series.

According to the reports, actual deliveries have been made to the USSR and Yugoslavia. One of the principal suppliers is Alfred Wertli, a Swiss engineer located at Ingenieurubureau, St Ursusstrasse 4, Baden. (Wertli has been reported on numerous times in connection with covert ball bearing trade and also the procurement of X-Ray equipment for Eastern European countries). Shipments are handled, for the most part, by the Swiss transport company Danasa & Company, and they are usually shipped by rail to Vienna where they are handled by the Masped transport agency, a correspondent of Danasa & Company.

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5. Information that Western European countries, other than Switzerland, are involved in this trade, continues to be reported. For example, in March 1949 US exporter received a request for a quotation on **several thousand SKF** spherical roller bearings from Martin Kjelgaard of Vejle, Denmark. Inquiry revealed that these bearings were destined for Rumania. The Danish authorities informed the US exporter's Copenhagen agent that if Kjelgaard should attempt to re-export these bearings, under no condition would he be granted an export license.

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US ARMY SURPLUS TRACTORS

The following information concerning the sale and shipment of US made crawler tractors from Europe to Czechoslovakia and the Soviet Union has been submitted by the US Embassy in Praha on 22 April 1949:

1. Most of the crawler tractors which were declared surplus by the US Army in Europe have been purchased by private firms in Belgium, Italy, England, and France. The machines have been re-conditioned and in many cases sold for dollars, pounds, or Belgian francs to satellite countries which use them for military purposes or re-export them to the Soviet Union. It is certain that in the case of Czechoslovakia a number of these tractors have been sent to the USSR.

2. The Italian firm of Mondial, 15 Via Saffi, Milan, over the past four months has sold seven 90 H.P. Caterpillar DF Tractors for \$16,000 apiece to the Czechoslovak Building Works, National Enterprise, Italaka, Praha XII. These machines were in excellent condition and are presently being used by the Czechoslovak Army.

3. Mr. Zimmerman of 92 Avenue Princess Elisabeth, Brussels III, Belgium, has sold several practically new tractors to the Czechoslovak Ministry of Agriculture at "an extremely low price." These machines are now all being used on "special projects."

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4. Mr. Berler of the United Engineering and Supply Company
9 Rue du Moniteur, Brussels, has sold several Caterpillar D7 and
D8 types to the Czechoslovak Ministry of Technics, some of the
tractors having been re-exported from Czechoslovakia to the USSR
and others being used by the Czechoslovak Government for "special
projects." Three tractors sold by this Belgian firm are known
to be in use now in the strip coal mines of Western Bohemia.

5. Two British firms: International Marketers, Ltd., and
Messrs. William Batey, Inc., both of 166 Notting Hill Gate,
London W11 (the former often working under cover of the latter)
have also sold surplus tractors to Eastern European countries.

Lately, one or both of these firms offered 20 "brand new"
Caterpillar D8 Tractors at \$29,000 each for export to Czechoslovakia
via Sweden. The name of the Swedish firm is as yet not known.
The same offer was made by Mondial of Milan for seven machines.

Comment:

Crawler tractors of the type described above, export of which
from the United States to certain countries is presently prohibited
according to export controls now in effect, are critically needed
in Czechoslovakia, not only in strip mining, road building and
construction, but also for military purposes.